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2 U.S. UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration //

3 STATEMENT OF RURAL ELECTRIFICATION ADMINISTRATION
CONCERNING ITS ACTIVITIES INVOLVING COOPERATIVES //

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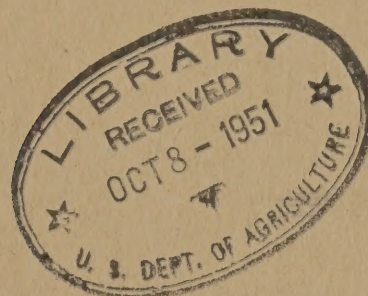
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The two types of cooperatives -- rural electric and rural telephone co-ops -- with which REA is primarily concerned are not strictly farmer co-ops. Since they provide a utility service to which all establishments in a rural area are entitled, it would be discriminatory to exclude from membership those patrons who are not farmers. However, it is estimated that about 75 percent of the 3,250,000 consumers served by rural electric co-ops on December 31, 1950 were farmers. No estimate is available on the number or percentage of farmer members of telephone co-ops financed with REA loans. There are also 34 refrigeration co-ops financed with REA loans and served by rural electric co-ops.

Statutory Basis for Work with Co-ops

The Rural Electrification Act of 1936, as amended, gives REA specific authority to make loans to rural electric and telephone co-ops. The telephone amendment was passed by the Congress in 1949. There is no requirement that a specified percentage of the members or patrons of such a co-op must be farmers, or that a specified amount of the co-op's business must be done with farmers, for such a co-op to be eligible for an REA loan. However, with regard to rural electrification loans the Act provides that 50 percent of annual loan authorizations shall be allotted among the states on the basis of the percentage of unelectrified farms in each state to the total number of electrified farms in the Nation.

REA's loan authority is not confined to co-ops. Rural electrification loans may be made to "persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts and cooperative, nonprofit, or limited-dividend associations." But the Administrator is required to give preference to "States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts, and cooperative, nonprofit, or limited-dividend associations." Actually, about 92 percent of REA borrowers of electrification loans are co-ops, and about 95 percent of all electrification loan funds has been lent to co-ops.

Rural telephone loans may be made to "persons now providing or who may hereafter provide telephone service in rural areas and to cooperative, non-profit, limited-dividend, or mutual associations." By omission, public agencies are excluded as eligible applicants for telephone loans. In making telephone loans, the Administrator is required to give preference to "persons providing telephone service in rural areas, and to cooperative, nonprofit, limited-dividend or mutual associations." In other words, as between existing suppliers of rural telephone service, independent commercial companies are entitled to the same consideration as co-ops. But co-ops are to get preferred consideration over new commercial companies not yet in operation. Actually, up to June 30, 1951, telephone loans have been made to 75 commercial companies and to 38 co-ops, with the latter accounting for slightly more than half of the loan funds allocated so far.

The Administrator is also authorized to "make, or cause to be made, studies, investigations and reports" and to "publish and disseminate information" concerning the "condition and progress" of rural electrification and rural telephone service. This is REA's authority for studies and publications about, and for the use of, rural electric and telephone co-ops.

Nature of REA Relations with Co-ops

The REA program is essentially a loan program. This means that REA is primarily a lending agency. Loans for construction and acquisition of borrowers' facilities may be made for a maximum amortization period of 35 years. Electrification loans may be for "generating plants, electric transmission and distribution lines or systems." Telephone loans may be for "improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems." Loans may also be made to electrification borrowers for financing the acquisition and installation of electric and plumbing systems and equipment by consumers on their lines. Maximum repayment for the latter type of loans is 5 years, but they are also subject to current Federal consumer credit regulations. All REA loans bear 2 percent interest per annum on outstanding balances.

The Act requires that the Administrator, when making a loan, must find and certify "that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed." In general, rural electrification loans are made for 100 percent of the project cost, while an equity ranging from 10 to 50 percent is required by REA in the case of telephone loans.

For the security on a hundred percent loan to be considered "reasonably adequate," it is necessary that, in addition to a mortgage on the physical facilities, there be assurance of successful operation of the facilities by the borrower. Since farm people were inexperienced in operating electric utilities, it was therefore necessary for REA to provide technical advisory services to co-op borrowers, to make up for their initial lack of experience. Such advisory services are provided on a selective basis as needed.

REA also performs certain supervisory and auditing functions with regard to the expenditure of loan funds by borrowers and is responsible for the collection of principal and interest payments on REA loans according to schedule.

REA's contacts with co-op borrowers are carried on through correspondence from Washington headquarters and through field work by representatives of the following line divisions: Applications and Loans, Engineering, Accounting and Auditing, and Management Division. Activities in connection with generation and transmission co-ops (federations of electric distribution co-ops) are carried on by the Power Division.

The policies and functions of REA, and the specific responsibilities of each Division (and of sections and units within divisions) with regard to any phase of REA's services to co-op and other borrowers, are set forth in a series of policy bulletins. Copies of this policy book are provided not only to REA staff members but also to all REA borrowers.

Contacts with other Farmer Co-ops

There is no specific statutory authorization for REA to work with any farmer co-ops. However, farmer co-ops in many states supplied the initiative for the organization of electric and telephone co-ops, and in some states REA co-op borrowers are members of agricultural co-op councils and contribute to co-op education programs carried on jointly with farmer co-ops. Moreover, REA co-op members are frequently also members of other rural co-ops.

For these reasons, REA encourages its co-op borrowers to establish and maintain friendly relations with other co-ops in the rural areas. To provide an understanding of farmer co-ops in general, REA includes a brief survey of various types of co-ops utilized by farm people in its orientation course for new REA employees. REA also makes available to staff members special non-REA publications concerning farm co-ops or dealing with problems common to all types of co-ops, such as FCA Bulletin 54 and other FCA and BAE studies.

Extent of REA's Work with Co-ops

As indicated earlier in this statement, more than 90 percent of REA's work in the rural electrification loan program is with co-ops.

In the case of the rural telephone loan program, the co-op borrowers, although fewer in number so far than the commercial borrowers, require relatively more agency assistance than the latter. That is because most co-op telephone borrowers either start from scratch or plan an extensive development around a nucleus of one or more small mutuals or farmer-owned lines.

In either case, the group responsible for development and management (generally consisting of farmers) is usually inexperienced in the planning and efficient management of a modern telephone system and therefore needs much more advisory aid than a well-established commercial company. Roughly, about 50 percent of the time of REA's telephone staff is needed for work with co-ops.

While all divisions of REA are largely concerned with co-op borrowers, the major contacts are, of course, made through the line divisions.

The Applications and Loans Division and the Management Division have the closest and most continuous contact with co-op borrowers. The former division assists co-ops at the organization stage, advises on

and reviews loan applications, and assists co-ops in planning and developing power use and member education programs. The latter division provides technical advice to co-op managers and boards on management and organizational problems.

The Engineering Division works primarily with co-op managers and with consulting engineers engaged by the co-ops on matters of design and construction of physical facilities and gives advice on system maintenance problems.

The Accounting and Auditing Division has responsibility for advances of loan funds, for ascertaining that loan funds are used only for designated purposes, and for keeping track of all interest and amortization payments made by REA borrowers. It advises co-op borrowers on their accounting problems. Its field auditors audit the construction loan accounts of each co-op borrower. Also once a year they audit the books of all co-ops except those which have reached a stage of management maturity and financial success that makes it feasible for them to engage public accountants for the job.

The Power Division provides management and engineering advice to federated power co-ops operating generation and transmission facilities. It also advises all co-op borrowers on matters of wholesale power contracts and rates.

The Information Services Division provides consulting service to the REA staff on matters involving understanding of co-op principles, methods and practices. It also prepares informational and educational material for the use of co-op borrowers.

The Rural Electrification Division of the Office of the Solicitor assists REA co-op borrowers and their attorneys with legal advice on matters of special concern to REA.

Curtailment of Authorized and Desirable Services to Co-ops Because of Limited Funds

Adequacy of REA service to co-op borrowers depends not only on adequacy of administrative funds but also on the availability of qualified personnel which REA is authorized to employ.

In the fiscal year 1951 it was a shortage of the latter that kept REA from catching up on the backlog of telephone loan applications.

During the fiscal year 1952, the personnel cuts required by actions of the Congress will further aggravate REA's manpower situation. It will result in more pronounced curtailment of services to applicants and to borrowers in several phases of the program.

Already, REA has found it necessary to reduce the staff of the Applications and Loans and the Engineering Divisions. The former reduction will mean the processing of fewer applications both for electrification and telephone loans from co-op as well as other applicants.

The reduction in the staff of the Engineering Division will result in delays in the approval of plans and specifications and construction. It will also delay advisory services to co-op managements on matters of maintenance and of improvement of electric systems to meet growing needs of consumers.

But the effect of personnel budget cuts below estimated needs will be felt most unhappily by many of the 3/4 million farm families still waiting for electric service.

Adequacy of Legal Authority

The legal authority under which REA operates -- the Rural Electrification Act of 1936, as amended -- is adequate for the performance of any services to co-ops deemed necessary or desirable in carrying forward the rural electrification and telephone loan programs.

Possible Contributions by Other USDA Agencies to Make REA Program Serve Co-ops Better

Grateful acknowledgement is made for past contributions by several USDA agencies to the more effective functioning of rural electric and telephone co-ops.

The Extension Service, from the Office of the Director down through the State and County offices, has been most helpful to the REA program. Many county agents have worked hard helping organize rural electric co-ops and are still assisting the co-ops in their member education programs, especially on matters of efficient power use for productive purposes.

The Farm Credit Administration, through its Cooperative Research and Service Division, has always been very cooperative in exchanging information and giving REA the benefit of its own research and experience as applicable. Several FCA bulletins on matters of co-op functioning and co-op history, and the FCA publication "News for Farmer Cooperatives" have proved valuable in helping REA staff members gain a better understanding of the farm co-op movement and of co-op methods and practices which are also of concern in connection with REA-financed co-ops. An unpublished FCA research project on telephone mutuals provided REA with useful data of considerable value two years ago when REA started planning its rural telephone loan program.

The Bureau of Agricultural Economics and the Agricultural Research Administration (and particularly the latter's Bureau of Human Nutrition and Home Economics) have frequently worked closely with REA on various matters of common interest and of potential importance to rural electric co-ops. The Bureau of Agricultural Economics has been particularly helpful in obtaining statistics on the number of farms which have electric and telephone service and the uses being made of such services.

It is hoped that the cooperative relationships of REA with these USDA agencies can be continued and further strengthened in the interest of both rural electric and telephone co-ops.

In addition, it would no doubt contribute to making the work of REA more effective if all professional workers in USDA (including also workers in bureaus and units not specifically concerned with cooperatives) who deal directly with farm people and with farm problems were encouraged to inform themselves on the nature of the REA program and of the opportunities it offers to farm people to raise their standards of production and of living. There are many occasions in contacts with farm people when such knowledge and understanding can be utilized to encourage cooperative self-help by farm people and to make them more fully aware of the services available to them through USDA to enable them to help themselves more effectively. This is especially important with regard to the rural telephone loan program which, because of its newness, is not known and even less understood by many farm people in need of adequate telephone service.

Nature and Extent of Co-op Support of REA Program

The rural electrification loan program would never have had a chance of success without the willingness of farmers to organize electric co-ops, to apply to REA for loans, and to accept responsibility for the organization and development of their electric co-ops. The credit for the fact that farm electrification has increased from less than 11 percent in 1935 to more than 85 percent in 1951 must go primarily to the nearly 1,000 co-ops which, together with less than 100 other REA borrowers, now serve more than half of all electrified farms in the country.

On the whole, the rural electric co-ops give full support to the REA program. Nearly all make a sincere effort to reach every farm and other rural establishment in their service area -- to carry out the principle of complete area coverage which is one of the objectives of the REA program. This is indicated also by the fact that the consumer density of REA co-ops averages only about 3 to the mile of line, whereas the consumer density per mile is generally much higher on the rural lines of commercial power companies.

The co-ops take their financial responsibilities seriously. They account for about 95 percent of the nearly $2\frac{1}{2}$ billion dollars of approved loans. Up to April 30, 1951, more than 172 million dollars had been repaid to REA on principal, in addition to interest payments totaling about 110 million dollars, on less than two billion dollars of loan funds advanced to REA borrowers. Only about $\frac{1}{4}$ of one percent of the interest and principal payments due cumulatively are more than 30 days overdue. About 30 million dollars has been repaid on principal ahead of schedule. So far, REA has had to foreclose on only one borrower which had reached the operating stage, and that was not a co-op but a small commercial company.

The success of the REA program will depend in the long run primarily on the ability of the co-ops locally to manage their own affairs efficiently and effectively. The average rural electric co-op today is serving about 3,400 consumers, has about 1,100 miles of power line to maintain, has more than $2\frac{1}{2}$ million dollars in REA loans approved, and has an actual investment of more than \$1,800,000 of loan funds in its facilities. In other words, it is a sizable business enterprise which requires highly competent management for effective operation.

The financial record summarized above is one indication of generally competent local technical management. Another indication that the local co-op management bodies have developed increasing ability to cope with their co-op problems is the fact that the number of REA employees concerned with the rural electrification program is not much larger today than it was in 1941, although there are now about 30 percent more borrowers, over 200 percent more miles of power line, over 300 percent more consumers served, and about 500 percent more loan funds invested in facilities than in 1941.

To operate a program which has increased so tremendously in size and in complexities of problems with virtually no increase in the size of the staff means, of course, that REA has had to place more and more reliance on the co-ops themselves to solve an increasing number of their problems without assistance or even guidance from REA. The advisory services of REA are now concentrated largely on special problems and on the newer borrowers and those which have difficulty achieving or maintaining a pay-out status. That this progressive withdrawal of REA advisory services was possible without jeopardizing the progress and success of the program is positive proof that the co-ops generally have learned to manage their own affairs effectively.

In view of the newness of the rural telephone loan program, there is as yet no definite pattern of aid to the program by co-ops. In general, rural electric co-op leaders in areas where telephone service is inadequate are taking the initiative in promoting and working with telephone co-ops. But encouragement and active support of telephone co-ops by farmer co-ops generally has so far not materialized on a broad scale. It is in this respect that employees of other USDA agencies working with farmer co-ops could be of particular service to the rural telephone loan program by acquainting farm co-op leaders with its possibilities and with the need of experienced co-op leadership if more farmers are to get adequate telephone service in areas where commercial companies are unwilling or unable to provide adequate service.

